WHO PAYS FOR THE PANAMA CANAL

By C. E. Grunsky, Eng.D.
ONE TIME MEMBER ISTHMIAN CANAL COMMISSION

HAD the Panama Canal been constructed by private enterprise subject to rate regulation by the United States, it is safe to say that the owner would have been allowed earnings that would cover operating expenses, including the requirement of replacing all parts thereof as they go out of use, and also a reasonable return on the capital invested in the enterprise. There would have been no allowance for amortization of the capital unless in the special case of a term franchise and a purpose on the part of the United States to acquire the canal during the life of the franchise. On the assumption of perpetual ownership by private parties there would be no sense in allowing the investment to be reduced unless the United States should desire to become a partner in the enterprise to the extent of such reduction.

The American people, as owners, are accountable to the whole world for the management of this enterprise and should make themselves familiar with the fundamental principles which should control the establishment of the canal tolls.

Has the United States constructed the canal for profit?

Has the United States constructed the canal as an investment which is to yield a reasonable return on its cost?

Has the United States made the investment in the canal as a temporary investment which it will endeavor to recover from those who use the canal?

Can the United States afford to make such investments for the benefit of commerce without recovering interest on the investment?

The answers to these questions will guide the economist who fixes the tolls, and will give him his starting point.

If the net earnings of the canal, that is, earnings in excess of operating expenses, are sufficient to meet interest on a bonded debt equivalent to the cost of the canal and enough surplus to return to the United States in a fixed time, as, for example, 100 years, the cost of the canal, then, at the end of this time the United States will no longer be out of pocket anything for canal construction. The nation will be in the same position as though some one had made it a present of the canal. During this time at some regular or irregular rate those who have travelled through the canal, and those who have purchased the goods transported through it, will have returned to the treasury of the United States the entire investment. The amount of the annual profit will be the factor

which in the last analysis will determine the time when the investment is fully amortized. It may appear to be good business to let the canal thus pay for itself, but there is another side to the question.

If the earnings of the canal are so regulated that they will meet operating expenses and interest on a bonded debt equal to the cost of the canal and no more, then the United States will be in the position of having loaned to commerce, as a permanent investment, a sum equal to the canal cost. The United States will be receiving interest on this investment. Apart from the benefits resulting to the country indirectly, the United States will be no better and no worse off financially than if the canal had not been built.

If, as an extreme case, it be assumed that the earnings are such that they will just meet operating expenses (including all replacement requirements) but nothing for interest and sinking funds, then the United States will be in the position of having donated for the benefit of the world's commerce a sum equal to the cost of the canal.

When a highway is constructed, when a harbor is dredged, when such works as the breakwater at San Pedro Bay, the breakwater at the mouth of the Columbia River, the South Pass at the mouth of the Mississippi River, the Ambrose Channel at New York harbor, and the many lighthouses on our ocean coasts, on the lakes and rivers, are constructed at government expense, the commerce which is benefited thereby is not taxed. The cost of these works is willingly borne by the country at large. There is no sinking fund to be provided. No interest on the investment is expected. Even the operating expenses come from the national or state treasuries. All this finds general acceptance as a matter of course. It is economically sound. The indirect return to the country is many times greater than the cost which has been incurred in the construction of such improvements, and no one objects to the wise expenditure of public funds for these purposes.

In what respect then does the Panama Canal as an aid to commerce differ from these works which are nearer home? In this only, broadly speaking, that in the case of all these other improvements, there is United States territory at one end, at least, of each business transaction which they facilitate, while the Panama Canal not only facilitates business between our own ports and between our country and foreign countries, but, also, in no small measure, the business carried on between foreign countries.

This fact needs no elaboration. It is patent. And due to this fact a different fundamental principle should find application than has so generally and properly been applied to the improvements which our nation and the several states and municipalities have made and are constantly making for the benefit of the public. This does not mean that we are to exact the "whole pound of flesh"—that we are to make

the traffic pay for the canal. By no means. We should not even ask the traffic to return to us any part of the canal cost, but we may, in all fairness, ask for a small interest return in order that foreign shipping, engaged in trade between foreign countries, may not be relieved entirely of a fair contribution toward interest on the money invested in the canal.

In so far as the business having any United States port at one end is concerned, it would be not only proper, but desirable, to have the tolls arranged with a view to making no interest return upon the invested capital. Let the whole country, every section of which profits directly or indirectly, stand this part of the operating cost. But in the case of traffic through the canal with foreign ports at each end of the business transaction the matter is different, and whether the ships be under a foreign or under the American flag, the tolls should be somewhat higher, estimated perhaps as they would be estimated if the entire traffic through the canal were to yield a low interest rate on the investment.

Professor Emory R. Johnson, in his report as special commissioner on Panama traffic and tolls, addressed to the Secretary of War in 1912, passes lightly over these questions. He accepts the principle that "business prudence and political wisdom demand that the canal shall be commercially self-supporting, provided revenues large enough to enable the canal to carry itself can be secured without unwisely restricting traffic" and says "the annual revenue ultimately required to make the canal self-supporting will be about $19,250,000." In this sum there are included $3,750,000 for amortization of the government's investment in the enterprise. Professor Johnson says:

> In deciding what tolls shall be charged for the use of the canal, the fundamental question is whether a system of charges can be devised and levied that will ultimately yield about $19,250,000 per annum without unduly burdening American trade and without seriously limiting the ability of the canal to compete for traffic against the routes via the Straits of Magellan, the Cape of Good Hope and the Suez Canal.

It is gratifying to find that in a later paper read before the International Engineering Congress in 1915 by Professor Johnson, there is an apparent modification of the view expressed by him in 1912. He says:

> The government should resist this pressure [to lower the rate of tolls] until the revenues derived from the canal cover the annual operation and maintenance expenses and the interest on what it cost to build the waterway.

This is sound doctrine, if we accept interest to mean interest at a low rate, except only for the fact that the government might do well to give way to the pressure long before interest on cost is fully covered by the earnings.

Professor Johnson in his recent paper points out that if the rate of

tolls now established be maintained for ten years and if subsequent reduction be made with caution, it will be possible for the American people to secure revenues from the canal that will ultimately return to the United States treasury the sum that has been invested in the waterway. He leaves us in doubt, however, whether he distinctly advocates this course, saying only that

> This can be done without restricting the usefulness of the canal, and if this policy is followed out it will be possible for the United States, with less burden to the taxpayers of the country, to construct other needed works.

Against any policy looking to the recovery of the cost of the canal out of its earnings there should be strong protest. It can not be carried out without materially restricting the usefulness of the canal. It would be unwise and unfair to those who use the canal. It would put this government into the undesirable position of having entered upon a commercial venture for profit with unnecessary restrictions upon the world's commerce.

If Professor Johnson's prediction be accepted as fairly dependable the canal tolls as now fixed are too high and should be reduced at the earliest possible moment. It should be assumed that the commerce of the present day should be relieved from any unnecessary burden fully as much as that of the future.

If the cost of the canal must some day be returned to the United States by the users of the canal, let this occur, not in this generation, but in the future when the larger traffic will not feel an added charge as a burden.

In giving expression to these views no consideration has been given to the fact that for military purposes alone the canal is worth to the United States all that it has cost. There is special reason therefore for making the traffic charges lower than would be done if the construction of the canal had been determined by commercial considerations alone.

The proposition, sometimes advanced, that consideration should be given to the transcontinental railroads when canal tolls are fixed is without special merit. Their business is a matter apart. They are entitled to and will get adequate protection, but should not look to a high canal tariff as an aid in increasing their business. There is no obligation on the part of the American people to reduce canal traffic for the benefit of the railroads and their users, and it would be a mistake on the part of the railroads to make any such claim.